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BEFORE THE ARIZONA CORPORATION COMMISSION

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CHAIRMAN  
JIM IRVIN  
COMMISSIONER  
WILLIAM A. MUNDELL  
COMMISSIONER

2000 NOV 15 P 2:18

AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION  
OF U S WEST COMMUNICATIONS, INC.,  
A COLORADO CORPORATION, FOR A  
HEARING TO DETERMINE THE  
EARNINGS OF THE COMPANY, THE  
FAIR VALUE OF THE COMPANY FOR  
RATEMAKING PURPOSES, TO FIX A  
JUST AND REASONABLE RATE OF  
RETURN THEREON AND TO APPROVE  
RATE SCHEDULES DESIGNED TO  
DEVELOP SUCH RETURN.

Docket No. T-01051B-99-0105

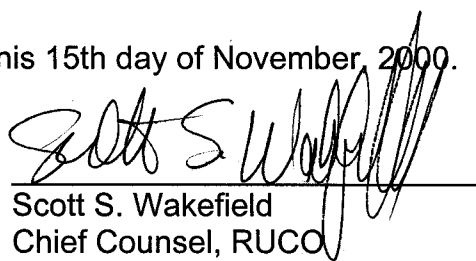
Arizona Corporation Commission  
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NOV 15 2000

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NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing  
further Supplemental Testimony of Dr. Ben Johnson regarding the Settlement Agreement, in  
the above-referenced matter.

RESPECTFULLY SUBMITTED this 15th day of November, 2000.

  
Scott S. Wakefield  
Chief Counsel, RUCO

AN ORIGINAL AND TEN COPIES  
of the foregoing filed this 15<sup>th</sup> day of  
November, 2000 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

1 COPIES of the foregoing hand delivered/  
2 mailed this 15<sup>th</sup> day of November, 2000 to:

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TESTIMONY

OF BEN JOHNSON, PH.D.

On Behalf of

THE STATE OF ARIZONA

RESIDENTIAL UTILITY CONSUMER OFFICE

Before the

ARIZONA CORPORATION COMMISSION

Docket No. T-01051B-99-0105

**Introduction**

**Q. Would you please state your name and address?**

A. Ben Johnson, 2252 Killearn Center Boulevard, Tallahassee, Florida 32308.

**Q. What is your purpose in submitting this additional testimony?**

A. In this additional supplemental testimony I will briefly comment on one aspect of the proposed settlement agreement filed by Staff and Qwest, based upon discovery responses which were recently received from these parties. For convenience, I have attached copies of their response to my testimony.

In particular, I want to provide some additional comments regarding the provisions of the proposed settlement agreement which purport to impose a minimum price floor, below which Qwest would not be allowed to set rates.

**Q. Would you please explain your concern?**

A. Yes. Price cap plans are designed to give carriers increased pricing flexibility during the transition to a more competitive market. However, pricing flexibility can potentially be abused in ways that will slow the transition to effective competition, or enable a carrier to retain or regain its market power.

1           Generally speaking, price cuts which are responsive to competitive pressures are  
2 considered a desirable outcome of the competitive process, and thus regulators should be  
3 reluctant to prevent or discourage price cutting of this type. However, there can be  
4 circumstances in which an incumbent carrier may use rate reductions in an anti-  
5 competitive manner. For instance, targeted price cuts may be used to discipline or punish  
6 certain of its competitors. Moreover, rate reductions may be used in a pre-emptive  
7 manner, to make competitive entry more difficult or impossible. Similarly, prices may be  
8 reduced to the point where competing carriers cannot cover their costs, including the cost  
9 of winning customers and gaining market share.

10           At first glance, it appears that the proposed settlement agreement contains some  
11 limited protection from anti-competitive underpricing. More specifically, the plan  
12 requires services in Baskets 1 and 3 to be priced above their Total Service Long Run  
13 Incremental Cost ("TSLRIC"). However, this portion of the plan relies heavily on cross  
14 referencing existing provisions of the Commission's rules, and it is not self-evident how  
15 these provisions will be applied or interpreted in this context.

16           To illustrate my concern, consider the relatively simple issue of whether Qwest  
17 will be required to set prices for its retail toll service which exceed its switched access  
18 rates. Access rates are paid to Qwest by its toll competitors under most circumstances. If  
19 Qwest is given the freedom to price its retail toll service below these wholesale rates, the  
20 competitors will incur costs which exceed their revenues, a condition which is sometimes  
21 describes as an anti-competitive "price squeeze." If Qwest is given the freedom to price in  
22 this manner, it will be able to force its toll competitors to choose between losing money  
23 and abandoning the market. Either way, setting toll prices below access is not in the  
24 public interest, although it may be in Qwest's corporate interest, since it will discourage  
25 competition and help it maintain or regain a large share of the market.

26           In response to this policy concern, regulators in various state jurisdictions have  
27 taken care to ensure that the incumbent LEC's retail toll rates remain above their access  
28 rates. One way this can be accomplished is by imposing an "imputation" requirement,  
29 which requires access charges to be included in calculating the cost of providing toll

1 service. Clearly, an appropriate imputation requirement is a valuable and appropriate  
2 element of a price cap plan, since it will help protect against anti-competitive pricing  
3 practices.  
4

5 **Q. Does the proposed price cap plan include an adequate imputation provision?**

6 A. No. Further clarification and improvement is needed. While it appears that Staff intended  
7 to include a pricing floor in the proposed settlement agreement, the proposed provision is  
8 too weak, and there is some ambiguity concerning how it stringently it would be applied.

9 For instance, in Qwest's response to our discovery, it seemed to indicate that it  
10 intends to impute access costs only to the extent access is deemed "essential" under the  
11 Commission's rules, and it concedes that "terminating" access is identified in the existing  
12 rules as an "essential" service. Thus, Qwest apparently intends to exclude originating  
13 access charges from its price floor calculations even though its toll competitors are  
14 generally forced to pay Qwest for originating access.

15 Admittedly, originating access isn't "essential" for some toll carriers under some  
16 circumstances. However, it represents an unavoidable expense for most toll carriers under  
17 most circumstances. To the extent carriers try to avoid paying originating switched  
18 access, they will incur other costs (e.g. special access charges). The function performed  
19 by originating access service (enabling retail customers to originate calls with the toll  
20 carrier of their choice) is clearly essential and cannot be avoided. While other options  
21 exist (e.g. special access) these are typically more expensive than switched access—at least  
22 when serving most residential and small business customers. While one might argue that  
23 switched access isn't "essential" since carriers have the option of using special access,  
24 that doesn't provide an adequate excuse for excluding one or the other of these costs in  
25 the pricing floor for toll service. If originating access is excluded from the price floor for  
26 toll service, Qwest will be free to subject its competitors to an anti-competitive pricing  
27 squeeze.

28 As I indicated earlier, RUCO submitted some discovery to both Qwest and Staff  
29 concerning this issue, in an effort to clarify the intent of this portion of the settlement



1 agreement. While none of the responses are completely enlightening, they tend to confirm  
2 my concern that the proposed settlement is ambiguous and could potentially provide  
3 Qwest with too much downward pricing freedom. For example, with regard to the  
4 relatively straightforward issue of toll pricing, Qwest doesn't explicitly explain whether it  
5 will include originating access in the price floor calculations, but it leaves the impression  
6 that it doesn't want to. Staff doesn't say whether, or under what circumstances, Qwest  
7 will be allowed to set retail toll prices below access charges, nor does the Staff indicate  
8 whether, or under what circumstances, a distinction might be made between originating  
9 and terminating access (see the attached discovery responses).

10  
11 **Q. Is your concern limited to the imputation of switched access?**

12 **A.** No. The same concerns apply to many other retail services, and ensuring that retail rates  
13 remain above the corresponding wholesale UNE rates paid by competitors. A price  
14 squeeze can easily result if an incumbent LEC is allowed to set retail prices below the  
15 level of UNE rates. If this is permitted, it will tend to discourage competitive entry, and  
16 make it difficult or impossible for competitors who are dependent upon UNEs to recover  
17 their costs and earn a profit.

18 An order issued by the Hawaii Public Utilities Commission provides a good  
19 explanation of this issue, and the need to maintain an appropriate balance between retail  
20 and wholesale rates:

21  
22 **Imputation**

23 For competition to thrive, there must be a level playing field for all local  
24 service providers. This requires all players to price their services based on  
25 a common benchmark. It is equally important that the incumbent, GTE  
26 Hawaiian Tel, not cross-subsidize those services that become subject to  
27 competition. Cross-subsidization occurs when: (1) any fully competitive  
28 or partially competitive service is priced below the TELRIC of providing  
29 the service; (2) fully competitive services, taken as a whole, fail to cover  
30 their direct and allocated joint and common costs; or (3) fully competitive  
31 and partially competitive services, taken as a whole, fail to cover their  
32 direct and allocated joint and common costs.  
33

1 To ensure a level playing field and discourage cross-subsidization, we  
2 require GTE Hawaiian Tel to base its own prices for retail services on the  
3 same benchmark we set in this decision and order. That is, GTE Hawaiian  
4 Tel must price its services as if it were an entity separate and apart from  
5 the entity that controls and manages the physical facilities currently owned  
6 by GTE Hawaiian Tel. Thus, its services must be priced according to the  
7 same TELRIC (plus a reasonable allocation of common costs) for  
8 interconnection and unbundled network elements that it charges to CLECs.  
9 We do not, by this condition, require GTE Hawaiian Tel physically and  
10 organizationally to separate itself into different entities. We only require  
11 that GTE Hawaiian Tel price its services on the same benchmark as its  
12 competitors. [Decision and Order No. 16777, Docket No. 7702, page 18.]  
13

14  
15 **Q. The Commission already has some rules concerning imputation. Aren't these**  
16 **sufficient to deal with these concerns?**

17 A. No. Among other concerns, the rules in question are somewhat ambiguous, and there  
18 doesn't exist a large body of orders from the Commission which clarify or interpret these  
19 ambiguous provisions.  
20

21 **Q. Staff argues that the "interpretation of these rules is not at issue at the present time**  
22 **in this Agreement." What is your response?**

23 A. Admittedly, the proposed settlement agreement simply cross references the existing rules.  
24 However, if the proposed price cap plan were to be accepted by the Commission, this  
25 would have the effect of making the correct interpretation and implementation of these  
26 rules far more important than before. Under the existing system of regulation, these  
27 pricing rules perform a "belt and suspender" function, providing some additional  
28 protection from anti-competitive pricing. However, the primary protection is provided by  
29 the Commission, and this is not dependent upon the correct interpretation of these rules.

30 Under the current system, the Commission regulates Qwest's retail rates, and it  
31 retains the discretion to reject rates which seem to be unreasonably low. Furthermore, if a  
32 competitor complains that Qwest is trying to drive them out of business by pricing below  
33 the imputed cost of essential services like access, the Commission can investigate the

1 specific circumstances and make a determination whether or not the proposed tariff  
2 should be allowed. Thus, for example, the Commission can determine whether special  
3 access or switched access is most appropriately used in evaluating proposed prices  
4 included in any particular tariff.

5 The proposed settlement agreement would take away the protection provided by  
6 the Commission, leaving nothing but the specific pricing limitations which are included  
7 in, or cross referenced by, the plan. Furthermore, at least with regard to services which  
8 involve a package of residential basic exchange and other services, the proposed  
9 settlement might have the effect of overriding, or negating, the limited protection  
10 currently provided by the Commission's rules.

11  
12 **Q. In your previously filed direct testimony concerning the settlement, you indicated**  
13 **that UNE rates should be considered in a price floor. Would you please discuss the**  
14 **Qwest and Staff responses to this issue?**

15 A. Yes. We asked Qwest and Staff some questions concerning UNE rates, but their  
16 responses did little to clarify the overall situation. One this is clear, however: Qwest and  
17 Staff both imply that Qwest would be free to price packages of competitive and basic  
18 local exchange service below the corresponding UNE rates, thereby subjecting  
19 competitors to an anti-competitive price squeeze.

20 Our discovery focused on a straightforward example: a package which includes  
21 basic local exchange service, call waiting, call forwarding and 100 minutes of toll service.  
22 If these services were bundled together and sold for a modest discount below the normal  
23 retail prices for the individual components, a competitor can profitably compete with  
24 Qwest while paying the UNE loop and switching rates. However, under Qwest's  
25 interpretation of the settlement agreement, it believes it will have the freedom to price far  
26 below its UNE rates, at levels that UNE-based competitors cannot possibly match. Qwest  
27 notes that the basic exchange rate is lower than the UNE loop rate, and it explains that  
28 "the current price of the residential basic exchange access line will be considered the  
29 price floor for any packages containing a residential access line."

Staff's response to this question is somewhat ambiguous, but it seems to leave open the possibility that Qwest would be allowed to drive its competitors out of business by pricing packages of basic exchange, vertical and toll services at levels which are equal to, or just slightly above, the price of basic exchange service alone. While a competitor doesn't need to recover the entirety of its UNE costs from basic exchange rates when this service is priced on a stand alone basis, it certainly needs to recover these costs from the combination of basic and other services provided to its customers. The proposed settlement agreement apparently would give Qwest the freedom to price packages of basic, vertical and toll services at levels which are below the UNE switching and loop rates, and thus it will have the opportunity to squeeze its UNE-based competitors out of business.

**Q. What is your recommendation regarding this aspect of the proposed plan?**

A. Given the discovery responses received from Qwest and Staff, this is an aspect of the proposed settlement agreement which is deeply deficient. While the plan cross references certain portions of the Commission's rules, these existing rules are not adequate in the context of the proposed settlement agreement, which would remove most of the Commission's discretion to prevent underpricing of services. The price cap plan provides Qwest with too much discretion, and it takes away too much of the Commission's discretion. Moreover, some of the language in the proposed settlement seems to weaken what limited protections currently exist in the Commission's rules, potentially allowing Qwest to slash prices on bundled packages to levels which are just slightly above the price for basic local exchange service—levels which would make it impossible for competitors to profitably use UNEs to compete with Qwest in the residential market. In my opinion, the proposed settlement agreement should be rejected, because it does not establish adequate protections against anti-competitive pricing tactics.

- 1    **Q.    Does this conclude your further supplemental testimony, which was prefiled on**  
2       **November, 15, 2000?**  
3    **A.    Yes, it does.**

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

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- 5.1 Please refer to page 3 of the proposed Settlement Agreement, which shows Staff and Qwest's proposal to raise Private Line revenues by \$13.7 million. Are all Private Line services included in the calculation of this amount included in the Basket 3 list of services attached as Exhibit 3 to the proposed Settlement Agreement? If not, identify each service included in the calculation of this amount, and the Basket in which Staff and Qwest propose to place such service.

**RESPONSE:** Yes.

**RESPONDENT(S):** William Dunkel, ACC Consultant

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
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The following questions refer to ACC Rule 14-2-1310(C), which provides:

An incumbent local exchange carrier shall recover in the retail price of each telecommunications service offered by the company the TSLRIC of all nonessential, and the imputed prices of all essential services, facilities, components, functions, or capabilities that are utilized to provision such telecommunications service, whether such service is offered pursuant to tariff or private contract.

Rule 14-2-1302 defines "Essential Facility or Service" as

any portion, component, or function of the network or service offered by a provider of local exchange service: that is necessary for a competitor to provide a public telecommunications service; that cannot be reasonable duplicated; and for which there is no adequate economic alternative to the competitor in terms of quality, quantity, and price.

- 5.2 In the context of setting a price floor for message toll service under the proposed Price Cap Plan, would you ever consider switched access to be an "essential service" as that term is defined in Rule 14-2-1302? Please explain under what circumstances switched access would be considered an "essential service" and explain under what circumstances switched access would not be considered an "essential service."

**RESPONSE:** Section 3(g) of the Price Cap Plan states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules is not changed, the interpretation of these rules is not at issue at the present time in this Agreement.

The proposed Settlement does not change the rules cited in the Requests, nor does it change the interpretation of any of the above rules.

**RESPONDENT(S):** William Dunkel, ACC Consultant

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

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- 5.3 Should the price of switched access be included as an imputed cost when calculating a price floor for any toll services under the proposed Price Cap Plan? If so, please identify the circumstances (e.g. specific tariffs) where this would be appropriate. If not, please explain why such imputation would not be appropriate.

**RESPONSE:** Section 3(g) of the Price Cap Plan states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules is not changed, the interpretation of these rules is not at issue at the present time in this Agreement. Please see the response to Request 5.2.

**RESPONDENT(S):** William Dunkel, ACC Consultant



**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

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- 5.4 Assume that Qwest offers a packaged service which includes basic local service, call waiting, call forwarding and 100 minutes of toll service. In the context of setting a price floor for this package under the proposed Price Cap Plan, would you ever consider the local loop to be an "essential facility" as that term is defined in Rule 14-2-1302? Please explain under what circumstances the local loop would be considered an "essential facility" and explain under what circumstances the local loop would not be considered an "essential facility."

**RESPONSE:** See 3(g) of the Price Cap Plan, which states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules is not changed, the interpretation of these rules is not at issue at the present time in this Agreement. Staff has not had sufficient opportunity to consider the specific package included in the Request and thus does not have a specific position at this time.

Staff notes, however, that the Agreement requires that the packages in Basket 3 that rely on basic service as a component of the package must impute the retail price of the basic service (1FR) in the TSLRIC to determine the price floor for the Basket 3 package.

**RESPONDENT(S):** William Dunkel, ACC Consultant; and Peggy Rettle, ACC Consultant

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

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- 5.5 Should the price of the unbundled local loop be included as an imputed cost when calculating a price floor for the service package described in the above question under the proposed Price Cap Plan? If so, please identify the circumstances where this would be appropriate. If not, please explain why such imputation would not be appropriate.

**RESPONSE:** Section 3(g) of the Price Cap Plan states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules has not changed, the interpretation of these rules is not at issue at the present time in this Agreement. See the response to Request 5.4. The switched access line is used to provide a family of services. The loop is an "essential facility" for the entire group of services that is provided using that facility. As a result of that, Staff's position has typically been that it would be inappropriate to place the full cost of that shared facility on the cost of just one of the services that share that facility. (Please see, including but not necessarily limited to, pages 40-59, and any schedules referenced therein of Mr. Dunkel's Direct Testimony and Schedules on Rate Design in this proceeding.)

Staff notes, however, that the Agreement calls for using the retail price of 1FR to determine the price floor of packages in Basket 3 that include 1FR.

**RESPONDENT(S):** William Dunkel, ACC Consultant; and Peggy Rettle, ACC Consultant

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

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- 5.6 In the context of setting a price floor for basic local service under the proposed Price Cap Plan, would you ever consider the local loop to be an "essential facility" as that term is defined in Rule 14-2-1302? Please explain under what circumstances the local loop would be considered an "essential facility" and explain under what circumstances the local loop would not be considered an "essential facility."

**RESPONSE:** Section 3(g) of the Price Cap plan states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules are not changed, the interpretation of these rules is not at issue at the present time in this Agreement. The term "ever" is a broad and vague term. However, in general principle, at least the full amount of the local loop would not normally be included as being part of the price floor for basic local exchange service. The switched access line is used to provide a family of services. Therefore, Staff's position is that it would be inappropriate to place the full cost of that shared facility on the cost of just one of the services that share that facility. (Please see, including but not necessarily limited to, pages 40-59 and the Schedules referenced therein of Mr. Dunkel's Direct Testimony and Schedules on Rate Design in this proceeding.)

Staff notes, however, that the Agreement calls for using the retail price of 1FR to determine the price floor of packages in Basket 3 that include 1FR.

**RESPONDENT(S):** William Dunkel, ACC Consultant; and Peggy Rettle, ACC Consultant

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

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- 5.7 Should the price of the unbundled local loop be included as an imputed cost when calculating a price floor for basic local service under the proposed Price Cap Plan? If so, please identify the circumstances (e.g. specific tariffs) where this would be appropriate. If not, please explain why such imputation would not be appropriate.

**RESPONSE:** Section 3(g) of the Price Cap Plan states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules is not changed, the interpretation of these rules is not at issue at the present time in this Agreement. Please see the response to Request 5.6.

Staff notes, however, that the Agreement calls for using the retail price of 1FR to determine the price floor of packages in Basket 3 that include 1FR.

**RESPONDENT(S):** William Dunkel, ACC Consultant; and Peggy Rettle, ACC Consultant

Arizona  
Docket No. T-1051B-99-105  
RUCO 36-001

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 001

Please refer to page 3 of the proposed Settlement Agreement, which shows Staff and Qwest's proposal to raise Private Line revenues by \$13.7 million. Are all Private Line services included in the calculation of this amount included in the Basket 3 list of services attached as Exhibit 3 to the proposed Settlement Agreement? If not, identify each service included in the calculation of this amount, and the Basket in which Staff and Qwest propose to place such service.

RESPONSE:

Yes, all Private Lines services in the \$13.7M revenue increase are Basket 3 services.

Maureen Arnold  
Director of Regulatory Affairs  
3033 No. 3rd St.  
Phoenix, AZ

Arizona  
Docket No. T-1051B-99-105  
RUCO 36-002

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 002

In the context of setting a price floor for message toll service under the proposed Price Cap Plan, would you ever consider switched access to be an "essential service" as that term is defined in Rule 14-2-1302? Please explain under what circumstances switched access would be considered an "essential service" and explain under what circumstances switched access would not be considered an "essential service."

RESPONSE:

To the extent that elements of switched access service are defined as "essential" in R14-2-1307(c)(2), which classifies the "termination of long distance calls" as essential, Qwest will continue to consider termination of intraLATA long distance calls to be essential until the Commission determines it to be otherwise in a rulemaking proceeding.

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA

Arizona  
Docket No. T-1051B-99-105  
RUCO 36-003

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 003

Should the price of switched access be included as an inputted cost when calculating a price floor for any toll services under the proposed Price Cap Plan? If so, please identify the circumstances (e.g. specific tariffs) where this would be appropriate. If not, please explain why such imputation would not be appropriate.

RESPONSE:

Qwest will include the price of any switched access elements defined by the Commission as essential, as well as the TSLRIC of any elements defined to be non-essential, in the price floor of any Qwest intraLATA long distance service under the proposed Price Cap Plan.

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA

Arizona  
Docket No. T-1051B-99-105  
RUCO 36-004

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 004

Assume that Qwest offers a packaged service which includes basic local service, call waiting, call forwarding and 100 minutes of toll service. In the context of setting a price floor for this package under the proposed Price Cap Plan, would you ever consider the local loop to be an "essential facility" as that term is defined in Rule 14-2-1302? Please explain under what circumstances the local loop would be considered an "essential facility" and explain under what circumstances the local loop would not be considered an "essential facility."

RESPONSE:

Qwest concurs that the Qwest unbundled loop can be considered to be an "essential facility" for setting price floors under the Price Cap Plan, until the Commission determines the unbundled loop to no longer be an essential facility, with the exception of establishment of price floors for residential basic exchange service. Since residential basic exchange service is currently priced below cost, parties have agreed that the current price of the residential basic exchange access line will be considered the price floor for any packages containing a residential access line (see Price Cap Plan 4E).

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA



Arizona  
Docket No. T-1051B-99-105  
RUCO 36-005

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 005

Should the price of the unbundled local loop be included as an imputed cost when calculating a price floor for the service package described in the above question under the proposed Price Cap Plan? If so, please identify the circumstances where this would be appropriate. If not, please explain why such imputation would not be appropriate.

RESPONSE:

For Business services, the price of the unbundled loop will be included in calculating the price floor for service packages incorporating business basic exchange services, so long as the unbundled loop is classified by the Commission as "essential." For Residential services, see response to Ruco 36-004.

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA

Arizona  
Docket No. T-1051B-99-105  
RUCO 36-006

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 006

In the context of setting a price floor for basic local service under the proposed Price Cap Plan, would you ever consider the local loop to be an "essential facility" as that term is defined in Rule 14-2-1302? Please explain under what circumstances the local loop would be considered and "essential facility" and explain under what circumstances the local loop would not be considered an "essential facility."

RESPONSE:

See response to Ruco 36-004.

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA

Arizona  
Docket No. T-1051B-99-105  
RUCO 36-007

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 007

Should the price of the unbundled local loop be included as an imputed cost when calculating a price floor for basic local service under the proposed Price Cap Plan? If so, please identify the circumstances (e.g. specific tariffs) where this would be appropriate. If not, please explain why such imputation would not be appropriate.

RESPONSE:

See response to Ruco 36-005.

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA

Legal

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BEFORE THE ARIZONA CORPORATION COMMISSION

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WILLIAM A. MUNDELL  
COMMISSIONER

AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION  
OF U S WEST COMMUNICATIONS, INC.,  
A COLORADO CORPORATION, FOR A  
HEARING TO DETERMINE THE  
EARNINGS OF THE COMPANY, THE  
FAIR VALUE OF THE COMPANY FOR  
RATEMAKING PURPOSES, TO FIX A  
JUST AND REASONABLE RATE OF  
RETURN THEREON AND TO APPROVE  
RATE SCHEDULES DESIGNED TO  
DEVELOP SUCH RETURN.

Docket No. T-01051B-99-0105

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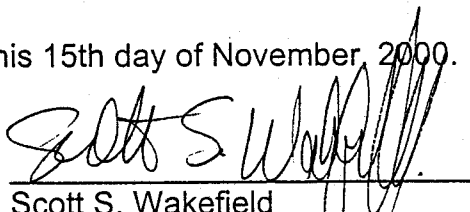
NOV 15 2000

LEGAL DIV  
ARIZ. CORPORATION COMMISSION

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing  
further Supplemental Testimony of Dr. Ben Johnson regarding the Settlement Agreement, in  
the above-referenced matter.

RESPECTFULLY SUBMITTED this 15th day of November, 2000.

  
\_\_\_\_\_  
Scott S. Wakefield  
Chief Counsel, RUCO

AN ORIGINAL AND TEN COPIES  
of the foregoing filed this 15<sup>th</sup> day of  
November, 2000 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

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2 mailed this 15<sup>th</sup> day of November, 2000 to:

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TESTIMONY  
OF BEN JOHNSON, PH.D.  
On Behalf of  
THE STATE OF ARIZONA  
RESIDENTIAL UTILITY CONSUMER OFFICE  
Before the  
ARIZONA CORPORATION COMMISSION  
Docket No. T-01051B-99-0105

**Introduction**

**Q. Would you please state your name and address?**

A. Ben Johnson, 2252 Killearn Center Boulevard, Tallahassee, Florida 32308.

**Q. What is your purpose in submitting this additional testimony?**

A. In this additional supplemental testimony I will briefly comment on one aspect of the proposed settlement agreement filed by Staff and Qwest, based upon discovery responses which were recently received from these parties. For convenience, I have attached copies of their response to my testimony.

In particular, I want to provide some additional comments regarding the provisions of the proposed settlement agreement which purport to impose a minimum price floor, below which Qwest would not be allowed to set rates.

**Q. Would you please explain your concern?**

A. Yes. Price cap plans are designed to give carriers increased pricing flexibility during the transition to a more competitive market. However, pricing flexibility can potentially be abused in ways that will slow the transition to effective competition, or enable a carrier to retain or regain its market power.

1           Generally speaking, price cuts which are responsive to competitive pressures are  
2 considered a desirable outcome of the competitive process, and thus regulators should be  
3 reluctant to prevent or discourage price cutting of this type. However, there can be  
4 circumstances in which an incumbent carrier may use rate reductions in an anti-  
5 competitive manner. For instance, targeted price cuts may be used to discipline or punish  
6 certain of its competitors. Moreover, rate reductions may be used in a pre-emptive  
7 manner, to make competitive entry more difficult or impossible. Similarly, prices may be  
8 reduced to the point where competing carriers cannot cover their costs, including the cost  
9 of winning customers and gaining market share.

10           At first glance, it appears that the proposed settlement agreement contains some  
11 limited protection from anti-competitive underpricing. More specifically, the plan  
12 requires services in Baskets 1 and 3 to be priced above their Total Service Long Run  
13 Incremental Cost ("TSLRIC"). However, this portion of the plan relies heavily on cross  
14 referencing existing provisions of the Commission's rules, and it is not self-evident how  
15 these provisions will be applied or interpreted in this context.

16           To illustrate my concern, consider the relatively simple issue of whether Qwest  
17 will be required to set prices for its retail toll service which exceed its switched access  
18 rates. Access rates are paid to Qwest by its toll competitors under most circumstances. If  
19 Qwest is given the freedom to price its retail toll service below these wholesale rates, the  
20 competitors will incur costs which exceed their revenues, a condition which is sometimes  
21 describes as an anti-competitive "price squeeze." If Qwest is given the freedom to price in  
22 this manner, it will be able to force its toll competitors to choose between losing money  
23 and abandoning the market. Either way, setting toll prices below access is not in the  
24 public interest, although it may be in Qwest's corporate interest, since it will discourage  
25 competition and help it maintain or regain a large share of the market.

26           In response to this policy concern, regulators in various state jurisdictions have  
27 taken care to ensure that the incumbent LEC's retail toll rates remain above their access  
28 rates. One way this can be accomplished is by imposing an "imputation" requirement,  
29 which requires access charges to be included in calculating the cost of providing toll

1 service. Clearly, an appropriate imputation requirement is a valuable and appropriate  
2 element of a price cap plan, since it will help protect against anti-competitive pricing  
3 practices.  
4

5 **Q. Does the proposed price cap plan include an adequate imputation provision?**

6 **A.** No. Further clarification and improvement is needed. While it appears that Staff intended  
7 to include a pricing floor in the proposed settlement agreement, the proposed provision is  
8 too weak, and there is some ambiguity concerning how it stringently it would be applied.

9 For instance, in Qwest's response to our discovery, it seemed to indicate that it  
10 intends to impute access costs only to the extent access is deemed "essential" under the  
11 Commission's rules, and it concedes that "terminating" access is identified in the existing  
12 rules as an "essential" service. Thus, Qwest apparently intends to exclude originating  
13 access charges from its price floor calculations even though its toll competitors are  
14 generally forced to pay Qwest for originating access.

15 Admittedly, originating access isn't "essential" for some toll carriers under some  
16 circumstances. However, it represents an unavoidable expense for most toll carriers under  
17 most circumstances. To the extent carriers try to avoid paying originating switched  
18 access, they will incur other costs (e.g. special access charges). The function performed  
19 by originating access service (enabling retail customers to originate calls with the toll  
20 carrier of their choice) is clearly essential and cannot be avoided. While other options  
21 exist (e.g. special access) these are typically more expensive than switched access—at least  
22 when serving most residential and small business customers. While one might argue that  
23 switched access isn't "essential" since carriers have the option of using special access,  
24 that doesn't provide an adequate excuse for excluding one or the other of these costs in  
25 the pricing floor for toll service. If originating access is excluded from the price floor for  
26 toll service, Qwest will be free to subject its competitors to an anti-competitive pricing  
27 squeeze.

28 As I indicated earlier, RUCO submitted some discovery to both Qwest and Staff  
29 concerning this issue, in an effort to clarify the intent of this portion of the settlement

1 agreement. While none of the responses are completely enlightening, they tend to confirm  
2 my concern that the proposed settlement is ambiguous and could potentially provide  
3 Qwest with too much downward pricing freedom. For example, with regard to the  
4 relatively straightforward issue of toll pricing, Qwest doesn't explicitly explain whether it  
5 will include originating access in the price floor calculations, but it leaves the impression  
6 that it doesn't want to. Staff doesn't say whether, or under what circumstances, Qwest  
7 will be allowed to set retail toll prices below access charges, nor does the Staff indicate  
8 whether, or under what circumstances, a distinction might be made between originating  
9 and terminating access (see the attached discovery responses).

10  
11 **Q. Is your concern limited to the imputation of switched access?**

12 **A.** No. The same concerns apply to many other retail services, and ensuring that retail rates  
13 remain above the corresponding wholesale UNE rates paid by competitors. A price  
14 squeeze can easily result if an incumbent LEC is allowed to set retail prices below the  
15 level of UNE rates. If this is permitted, it will tend to discourage competitive entry, and  
16 make it difficult or impossible for competitors who are dependent upon UNEs to recover  
17 their costs and earn a profit.

18 An order issued by the Hawaii Public Utilities Commission provides a good  
19 explanation of this issue, and the need to maintain an appropriate balance between retail  
20 and wholesale rates:

21  
22 **Imputation**

23 For competition to thrive, there must be a level playing field for all local  
24 service providers. This requires all players to price their services based on  
25 a common benchmark. It is equally important that the incumbent, GTE  
26 Hawaiian Tel, not cross-subsidize those services that become subject to  
27 competition. Cross-subsidization occurs when: (1) any fully competitive  
28 or partially competitive service is priced below the TELRIC of providing  
29 the service; (2) fully competitive services, taken as a whole, fail to cover  
30 their direct and allocated joint and common costs; or (3) fully competitive  
31 and partially competitive services, taken as a whole, fail to cover their  
32 direct and allocated joint and common costs.  
33

1 To ensure a level playing field and discourage cross-subsidization, we  
2 require GTE Hawaiian Tel to base its own prices for retail services on the  
3 same benchmark we set in this decision and order. That is, GTE Hawaiian  
4 Tel must price its services as if it were an entity separate and apart from  
5 the entity that controls and manages the physical facilities currently owned  
6 by GTE Hawaiian Tel. Thus, its services must be priced according to the  
7 same TELRIC (plus a reasonable allocation of common costs) for  
8 interconnection and unbundled network elements that it charges to CLECs.  
9 We do not, by this condition, require GTE Hawaiian Tel physically and  
10 organizationally to separate itself into different entities. We only require  
11 that GTE Hawaiian Tel price its services on the same benchmark as its  
12 competitors. [Decision and Order No. 16777, Docket No. 7702, page 18.]  
13

14  
15 **Q. The Commission already has some rules concerning imputation. Aren't these**  
16 **sufficient to deal with these concerns?**

17 **A.** No. Among other concerns, the rules in question are somewhat ambiguous, and there  
18 doesn't exist a large body of orders from the Commission which clarify or interpret these  
19 ambiguous provisions.  
20

21 **Q. Staff argues that the "interpretation of these rules is not at issue at the present time**  
22 **in this Agreement." What is your response?**

23 **A.** Admittedly, the proposed settlement agreement simply cross references the existing rules.  
24 However, if the proposed price cap plan were to be accepted by the Commission, this  
25 would have the effect of making the correct interpretation and implementation of these  
26 rules far more important than before. Under the existing system of regulation, these  
27 pricing rules perform a "belt and suspender" function, providing some additional  
28 protection from anti-competitive pricing. However, the primary protection is provided by  
29 the Commission, and this is not dependent upon the correct interpretation of these rules.  
30

31 Under the current system, the Commission regulates Qwest's retail rates, and it  
32 retains the discretion to reject rates which seem to be unreasonably low. Furthermore, if a  
33 competitor complains that Qwest is trying to drive them out of business by pricing below  
the imputed cost of essential services like access, the Commission can investigate the

1 specific circumstances and make a determination whether or not the proposed tariff  
2 should be allowed. Thus, for example, the Commission can determine whether special  
3 access or switched access is most appropriately used in evaluating proposed prices  
4 included in any particular tariff.

5 The proposed settlement agreement would take away the protection provided by  
6 the Commission, leaving nothing but the specific pricing limitations which are included  
7 in, or cross referenced by, the plan. Furthermore, at least with regard to services which  
8 involve a package of residential basic exchange and other services, the proposed  
9 settlement might have the effect of overriding, or negating, the limited protection  
10 currently provided by the Commission's rules.

11  
12 **Q. In your previously filed direct testimony concerning the settlement, you indicated**  
13 **that UNE rates should be considered in a price floor. Would you please discuss the**  
14 **Qwest and Staff responses to this issue?**

15 **A.** Yes. We asked Qwest and Staff some questions concerning UNE rates, but their  
16 responses did little to clarify the overall situation. One thing is clear, however: Qwest and  
17 Staff both imply that Qwest would be free to price packages of competitive and basic  
18 local exchange service below the corresponding UNE rates, thereby subjecting  
19 competitors to an anti-competitive price squeeze.

20 Our discovery focused on a straightforward example: a package which includes  
21 basic local exchange service, call waiting, call forwarding and 100 minutes of toll service.  
22 If these services were bundled together and sold for a modest discount below the normal  
23 retail prices for the individual components, a competitor can profitably compete with  
24 Qwest while paying the UNE loop and switching rates. However, under Qwest's  
25 interpretation of the settlement agreement, it believes it will have the freedom to price far  
26 below its UNE rates, at levels that UNE-based competitors cannot possibly match. Qwest  
27 notes that the basic exchange rate is lower than the UNE loop rate, and it explains that  
28 "the current price of the residential basic exchange access line will be considered the  
29 price floor for any packages containing a residential access line."

1 Staff's response to this question is somewhat ambiguous, but it seems to leave  
2 open the possibility that Qwest would be allowed to drive its competitors out of business  
3 by pricing packages of basic exchange, vertical and toll services at levels which are equal  
4 to, or just slightly above, the price of basic exchange service alone. While a competitor  
5 doesn't need to recover the entirety of its UNE costs from basic exchange rates when this  
6 service is priced on a stand alone basis, it certainly needs to recover these costs from the  
7 combination of basic and other services provided to its customers. The proposed  
8 settlement agreement apparently would give Qwest the freedom to price packages of  
9 basic, vertical and toll services at levels which are below the UNE switching and loop  
10 rates, and thus it will have the opportunity to squeeze its UNE-based competitors out of  
11 business.

12  
13 **Q. What is your recommendation regarding this aspect of the proposed plan?**

14 **A.** Given the discovery responses received from Qwest and Staff, this is an aspect of the  
15 proposed settlement agreement which is deeply deficient. While the plan cross references  
16 certain portions of the Commission's rules, these existing rules are not adequate in the  
17 context of the proposed settlement agreement, which would remove most of the  
18 Commission's discretion to prevent underpricing of services. The price cap plan provides  
19 Qwest with too much discretion, and it takes away too much of the Commission's  
20 discretion. Moreover, some of the language in the proposed settlement seems to weaken  
21 what limited protections currently exist in the Commission's rules, potentially allowing  
22 Qwest to slash prices on bundled packages to levels which are just slightly above the  
23 price for basic local exchange service—levels which would make it impossible for  
24 competitors to profitably use UNEs to compete with Qwest in the residential market. In  
25 my opinion, the proposed settlement agreement should be rejected, because it does not  
26 establish adequate protections against anti-competitive pricing tactics.

- 1 Q. Does this conclude your further supplemental testimony, which was prefiled on  
2 November, 15, 2000?  
3 A. Yes, it does.



**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

---

- 5.1 Please refer to page 3 of the proposed Settlement Agreement, which shows Staff and Qwest's proposal to raise Private Line revenues by \$13.7 million. Are all Private Line services included in the calculation of this amount included in the Basket 3 list of services attached as Exhibit 3 to the proposed Settlement Agreement? If not, identify each service included in the calculation of this amount, and the Basket in which Staff and Qwest propose to place such service.

**RESPONSE:** Yes.

**RESPONDENT(S):** William Dunkel, ACC Consultant

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

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The following questions refer to ACC Rule 14-2-1310(C), which provides:

An incumbent local exchange carrier shall recover in the retail price of each telecommunications service offered by the company the TSLRIC of all nonessential, and the imputed prices of all essential services, facilities, components, functions, or capabilities that are utilized to provision such telecommunications service, whether such service is offered pursuant to tariff or private contract.

Rule 14-2-1302 defines "Essential Facility or Service" as

any portion, component, or function of the network or service offered by a provider of local exchange service: that is necessary for a competitor to provide a public telecommunications service; that cannot be reasonable duplicated; and for which there is no adequate economic alternative to the competitor in terms of quality, quantity, and price.

- 5.2 In the context of setting a price floor for message toll service under the proposed Price Cap Plan, would you ever consider switched access to be an "essential service" as that term is defined in Rule 14-2-1302? Please explain under what circumstances switched access would be considered an "essential service" and explain under what circumstances switched access would not be considered an "essential service."

**RESPONSE:** Section 3(g) of the Price Cap Plan states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules is not changed, the interpretation of these rules is not at issue at the present time in this Agreement.

The proposed Settlement does not change the rules cited in the Requests, nor does it change the interpretation of any of the above rules.

**RESPONDENT(S):** William Dunkel, ACC Consultant

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

---

- 5.3 Should the price of switched access be included as an imputed cost when calculating a price floor for any toll services under the proposed Price Cap Plan? If so, please identify the circumstances (e.g. specific tariffs) where this would be appropriate. If not, please explain why such imputation would not be appropriate.

**RESPONSE:** Section 3(g) of the Price Cap Plan states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules is not changed, the interpretation of these rules is not at issue at the present time in this Agreement. Please see the response to Request 5.2.

**RESPONDENT(S):** William Dunkel, ACC Consultant

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

---

- 5.4 Assume that Qwest offers a packaged service which includes basic local service, call waiting, call forwarding and 100 minutes of toll service. In the context of setting a price floor for this package under the proposed Price Cap Plan, would you ever consider the local loop to be an "essential facility" as that term is defined in Rule 14-2-1302? Please explain under what circumstances the local loop would be considered an "essential facility" and explain under what circumstances the local loop would not be considered an "essential facility."

**RESPONSE:** See 3(g) of the Price Cap Plan, which states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules is not changed, the interpretation of these rules is not at issue at the present time in this Agreement. Staff has not had sufficient opportunity to consider the specific package included in the Request and thus does not have a specific position at this time.

Staff notes, however, that the Agreement requires that the packages in Basket 3 that rely on basic service as a component of the package must impute the retail price of the basic service (IFR) in the TSLRIC to determine the price floor for the Basket 3 package.

**RESPONDENT(S):** William Dunkel, ACC Consultant; and Peggy Rettle, ACC Consultant

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

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- 5.5 Should the price of the unbundled local loop be included as an imputed cost when calculating a price floor for the service package described in the above question under the proposed Price Cap Plan? If so, please identify the circumstances where this would be appropriate. If not, please explain why such imputation would not be appropriate.

**RESPONSE:** Section 3(g) of the Price Cap Plan states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules has not changed, the interpretation of these rules is not at issue at the present time in this Agreement. See the response to Request 5.4. The switched access line is used to provide a family of services. The loop is an "essential facility" for the entire group of services that is provided using that facility. As a result of that, Staff's position has typically been that it would be inappropriate to place the full cost of that shared facility on the cost of just one of the services that share that facility. (Please see, including but not necessarily limited to, pages 40-59, and any schedules referenced therein of Mr. Dunkel's Direct Testimony and Schedules on Rate Design in this proceeding.)

Staff notes, however, that the Agreement calls for using the retail price of IFR to determine the price floor of packages in Basket 3 that include IFR.

**RESPONDENT(S):** William Dunkel, ACC Consultant; and Peggy Rettle, ACC Consultant

ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000

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- 5.6 In the context of setting a price floor for basic local service under the proposed Price Cap Plan, would you ever consider the local loop to be an "essential facility" as that term is defined in Rule 14-2-1302? Please explain under what circumstances the local loop would be considered an "essential facility" and explain under what circumstances the local loop would not be considered an "essential facility."

**RESPONSE:** Section 3(g) of the Price Cap plan states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules are not changed, the interpretation of these rules is not at issue at the present time in this Agreement. The term "ever" is a broad and vague term. However, in general principle, at least the full amount of the local loop would not normally be included as being part of the price floor for basic local exchange service. The switched access line is used to provide a family of services. Therefore, Staff's position is that it would be inappropriate to place the full cost of that shared facility on the cost of just one of the services that share that facility. (Please see, including but not necessarily limited to, pages 40-59 and the Schedules referenced therein of Mr. Dunkel's Direct Testimony and Schedules on Rate Design in this proceeding.)

Staff notes, however, that the Agreement calls for using the retail price of 1FR to determine the price floor of packages in Basket 3 that include 1FR.

**RESPONDENT(S):** William Dunkel, ACC Consultant; and Peggy Rettle, ACC Consultant

**ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES  
TO RUCO'S FIFTH SET OF DATA REQUESTS TO  
THE ARIZONA CORPORATION COMMISSION STAFF  
DOCKET NO. T-01051B-99-0105  
NOVEMBER 13, 2000**

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- 5.7 Should the price of the unbundled local loop be included as an imputed cost when calculating a price floor for basic local service under the proposed Price Cap Plan? If so, please identify the circumstances (e.g. specific tariffs) where this would be appropriate. If not, please explain why such imputation would not be appropriate.

**RESPONSE:** Section 3(g) of the Price Cap Plan states:

Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in ACC R14-1-1310.

Since the interpretation of these rules is not changed, the interpretation of these rules is not at issue at the present time in this Agreement. Please see the response to Request 5.6.

Staff notes, however, that the Agreement calls for using the retail price of 1FR to determine the price floor of packages in Basket 3 that include 1FR.

**RESPONDENT(S):** William Dunkel, ACC Consultant; and Peggy Rettle, ACC Consultant

Arizona  
Docket No. T-1051E-99-105  
RUCO 36-001

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 001

Please refer to page 3 of the proposed Settlement Agreement, which shows Staff and Qwest's proposal to raise Private Line revenues by \$13.7 million. Are all Private Line services included in the calculation of this amount included in the Basket 3 list of services attached as Exhibit 3 to the proposed Settlement Agreement? If not, identify each service included in the calculation of this amount, and the Basket in which Staff and Qwest propose to place such service.

RESPONSE:

Yes, all Private Lines services in the \$13.7M revenue increase are Basket 3 services.

Maureen Arnold  
Director of Regulatory Affairs  
3033 No. 3rd St.  
Phoenix, AZ



Arizona

Docket No. T-1051B-99-105

RUCO 36-002

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 002

In the context of setting a price floor for message toll service under the proposed Price Cap Plan, would you ever consider switched access to be an "essential service" as that term is defined in Rule 14-2-1302? Please explain under what circumstances switched access would be considered an "essential service" and explain under what circumstances switched access would not be considered an "essential service."

RESPONSE:

To the extent that elements of switched access service are defined as "essential" in R14-2-1307(c)(2), which classifies the "termination of long distance calls" as essential, Qwest will continue to consider termination of intraLATA long distance calls to be essential until the Commission determines it to be otherwise in a rulemaking proceeding.

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA

Arizona  
Docket No. T-1051B-99-105  
RUCO 36-003

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 003

Should the price of switched access be included as an inputted cost when calculating a price floor for any toll services under the proposed Price Cap Plan? If so, please identify the circumstances (e.g. specific tariffs) where this would be appropriate. If not, please explain why such imputation would not be appropriate.

RESPONSE:

Qwest will include the price of any switched access elements defined by the Commission as essential, as well as the TSLRIC of any elements defined to be non-essential, in the price floor of any Qwest intraLATA long distance service under the proposed Price Cap Plan.

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA

Arizona  
Docket No. T-1051B-99-105  
RUCO 36-004

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 004

Assume that Qwest offers a packaged service which includes basic local service, call waiting, call forwarding and 100 minutes of toll service. In the context of setting a price floor for this package under the proposed Price Cap Plan, would you ever consider the local loop to be an "essential facility" as that term is defined in Rule 14-2-1302? Please explain under what circumstances the local loop would be considered an "essential facility" and explain under what circumstances the local loop would not be considered an "essential facility."

RESPONSE:

Qwest concurs that the Qwest unbundled loop can be considered to be an "essential facility" for setting price floors under the Price Cap Plan, until the Commission determines the unbundled loop to no longer be an essential facility, with the exception of establishment of price floors for residential basic exchange service. Since residential basic exchange service is currently priced below cost, parties have agreed that the current price of the residential basic exchange access line will be considered the price floor for any packages containing a residential access line (see Price Cap Plan 4E).

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA

Arizona  
Docket No. T-1051B-99-105  
RUCO 36-005

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 005

Should the price of the unbundled local loop be included as an imputed cost when calculating a price floor for the service package described in the above question under the proposed Price Cap Plan? If so, please identify the circumstances where this would be appropriate. If not, please explain why such imputation would not be appropriate.

RESPONSE:

For Business services, the price of the unbundled loop will be included in calculating the price floor for service packages incorporating business basic exchange services, so long as the unbundled loop is classified by the Commission as "essential." For Residential services, see response to Ruco 36-004.

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA

Arizona

Docket No. T-1051B-99-105

RUCO 36-006

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 006

In the context of setting a price floor for basic local service under the proposed Price Cap Plan, would you ever consider the local loop to be an "essential facility" as that term is defined in Rule 14-2-1302? Please explain under what circumstances the local loop would be considered and "essential facility" and explain under what circumstances the local loop would not be considered an "essential facility."

RESPONSE:

See response to Ruco 36-004.

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA

Arizona  
Docket No. T-1051B-99-105  
RUCO 36-007

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 007

Should the price of the unbundled local loop be included as an imputed cost when calculating a price floor for basic local service under the proposed Price Cap Plan? If so, please identify the circumstances (e.g. specific tariffs) where this would be appropriate. If not, please explain why such imputation would not be appropriate.

RESPONSE:

See response to Ruco 36-005.

David Teitzel  
Witness - Pricing and Policy  
1600 7th Avenue  
Seattle, WA

MODE = MEMORY TRANSMISSION

START=NOV-16 11:27

END=NOV-16 12:27

FILE NO. = 041

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004	OK	a	813012154033	028/028	00:08'09"

-ACC LEGAL DIVISION -

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## ARIZONA CORPORATION COMMISSION

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Stephen G. Hill 304-562-3645  
Chip Shooshan @ Strategic Policy Research 301-215-4033

FROM: Connie Fitzsimmons for Maureen A. Scott *chr*

DATE: November 16, 2000

MESSAGE: Attached is the further supplemental testimony of Dr. Ben Johnson, on behalf of RECO. A hard copy is being over-nighted to you.